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TAGS: EGEN, ECON, XC, XE, XP

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT
FEBRUARY 28, 1978

1. ASEAN NOTES ON TAX DEFERRAL AND ELEVEN MEMORANDA
(LIMITED OFFICIAL USE)

IN A PHILIPPINE NOTE ON BEHALF OF ASEAN, THE
ADMINISTRATION IS REQUESTED TO RECONSIDER ITS PROPOSAL
TO PHASE OUT OVER THREE YEARS TAX DEFERRAL OF FOREIGN
SUBSIDIARIES' INCOME OF US FIRMS. ASEAN INDICATES
THAT IT MADE A SIMILAR REQUEST IN ITS MEMORANDA
SUBMITTED DURING US-ASEAN DIALOGUE LAST SEPTEMBER.
IN ANOTHER NOTE, ASEAN FORMALLY REQUESTS A REPLY TO ITS
ELEVEN MEMORANDA. WE ARE CURRENTLY WORKING ON THESE
REPLIES. THE NOTE ALSO REITERATES ASEAN INTEREST IN
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US FINANCIAL SUPPORT FOR THE ADB.

2. COREA'S VISIT (LIMITED OFFICIAL USE)

IN DISCUSSIONS HERE, UNCTAD SECRETARY GENERAL COREA
SAID THAT HE WOULD RECOMMEND RESUMPTION OF THE COMMON
FUND NEGOTIATIONS ONLY IF THE PROSPECTS FOR AGREEMENT

APPEAR GOOD. COREA THINKS NEGOTIATIONS MIGHT BE

RECONVENED IN MAY SO THAT THEY DO NOT SLIDE INTO PREPARATIONS FOR UNCTAD V. HOWEVER, HE SUGGESTS, AND WE AGREE, THAT FIRST REPRESENTATIVES FROM A SMALL GROUP OF COUNTRIES GATHER TO DETERMINE IF VIEWS CONVERGE SUFFICIENTLY TO JUSTIFY RESUMING NEGOTIATIONS. COREA REPORTS THAT LDCS HAVE REDUCED EXPECTATIONS FOR A LARGE ACROSS THE BOARD DEBT RELIEF AT THE MARCH 6-10 TDB MINISTERIAL. HE BELIEVES THE TDB SHOULD FOCUS ON SOME DEBT RELIEF FOR LEAST DEVELOPED COUNTRIES AND ON GUIDELINES FOR FUTURE DEBT REORGANIZATION.

3. ZENITH CASE (UNCLASSIFIED)

THE SUPREME COURT HAS AGREED TO REVIEW THE DECISION OF THE COURT OF CUSTOMS AND PATENT APPEALS. THE CCPA HAD UPHELD AS LEGALLY PERMISSIBLE THE TREASURY DEPARTMENT'S ADMINISTRATIVE PRACTICES REGARDING NON-EXCESSIVE REBATES OF INDIRECT TAXES. ORAL ARGUMENTS WILL BE HEARD DURING THE WEEK OF APRIL 24, MAKING A COURT DECISION LIKELY BY THE END OF JUNE. THE DECISION IS LIKELY TO HAVE BROAD IMPLICATIONS, I.E. REBATE OF VAT IN THE EC, AND MAY INFLUENCE THE OUTCOME OF THE MTN.

4. COPPER (UNCLASSIFIED)

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TWELVE US REFINED COPPER PRODUCERS HAVE FILED AN ESCAPE CLAUSE PETITION (SECTION 201) WITH THE INTERNATIONAL TRADE COMMISSION. THE PRODUCERS ALLEDGE THAT INCREASED IMPORTS OF COPPER ARE CAUSING SERIOUS INJURY TO DOMESTIC INDUSTRY AND ASK THAT AN IMPORT QUOTA BE ESTABLISHED. THE ITC REPORT WILL BE DUE IN SIX MONTHS.

5. ADB PROGRAM LENDING (LIMITED OFFICIAL USE)

ADB BOARD GAVE ITS FINAL APPROVAL TO PROGRAM LENDING GUIDELINES RESTRICTING SUCH LOANS TO A SMALL PORTION OF BANK'S ANNUAL LENDING. UP TO 5 PERCENT OF BANK'S ANNUAL LENDING MAY GO TO PROGRAM LOANS; INDIVIDUAL COUNTRY MAY RECEIVE UP TO 10 PERCENT OF ITS ANNUAL LENDING AS PROGRAM LOANS. LATTER RESTRICTION WILL NOT APPLY, HOWEVER, SHOULD MEMBERS RECEIVE NO PROJECT LOANS OR ONLY SMALL AMOUNT OF PROJECT LOANS. US HOPES THAT BANK WILL NOT BUNCH UP PROGRAM LOANS AT YEAR END.

6. ADB NOMINATES KATZ FOR VICE PRESIDENT (CONFIDENTIAL)

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THE ADB MANAGEMENT HAS RECOMMENDED TO THE BOARD THE APPOINTMENT OF DR. S. STANLEY KATZ, CURRENTLY A DEPUTY ASSISTANT SECRETARY AT COMMERCE, TO A NEW VP POST FOR A FIVE YEAR TERM, EFFECTIVE APRIL 1. KATZ WILL BE IN CHARGE OF ALL BANK FUNCTIONS EXCEPT OPERATIONS, INTERNAL AUDIT AND PROJECT POST-EVALUATION. BAMBAWALE, WHO WILL ASSUME A VICE PRESIDENT POSITION CONCURRENTLY WITH KATZ, WOULD BE THE RANKING VP. SHOULD THE BANK AGREE TO INCREASE THE NUMBER OF VPS AND ACCEPT THE KATZ NOMINATION, THE DEPARTMENT WOULD APPOINT KATZ AS A FSR AND DETAIL HIM TO THE BANK.

7. OECD MEETINGS

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WP-3 QUESTIONS CENTERED ON THE US CURRENT ACCOUNT DEFICIT AND THE DOLLAR EXCHANGE RATE. DELEGATES ALSO FOCUSED ON THE NEED FOR FASTER GROWTH OUTSIDE THE US AS WELL AS AN EFFECTIVE US ENERGY POLICY TO HELP REDUCE THE DEFICIT. WP-3 CONCLUDED: 1) US DEMAND MANAGEMENT POLICY WAS ABOUT RIGHT AND SHOULD NOT BE CUT BACK; 2) MOST OTHER MAJOR COUNTRIES SHOULD GROW FASTER; 3) SOME COUNTRIES COULD LOWER INTEREST RATES TO ENCOURAGE CAPITAL FLOWS TO THE US; AND 4) BASIC POLICY MEASURE SHOULD CORRECT THE DEPRECIATIONS OF THE DOLLAR RATHER THAN MASSIVE EXCHANGE MARKET INTERVENTIONS. (CONFIDENTIAL)

ALL OECD TRADE COMMITTEE DELEGATES, EXCEPT AUSTRALIA AND NEW ZEALAND, GAVE PRELIMINARY VIEWS THAT RENEWAL OF THE TRADE PLEDGE WAS ESSENTIAL. ALL AGREED THAT THE NEED FOR STRUCTURAL ADJUSTMENT SHOULD NOT SERVE AS A PRETEXT FOR TRADE RESTRICTIONS. THE ADJUSTMENT BURDEN SHOULD NOT BE SHIFTED TO OTHERS. (LIMITED OFFICIAL USE)

8. MTN BILATERAL DISCUSSIONS IN GENEVA (CONFIDENTIAL)
WE TOLD JAPANESE OFFICIALS THAT THEIR TARIFF OFFERS FELL UNACCEPTABLY SHORT OF THE INTENT OF THE STRAUSS/USHIBA COMMUNIQUE, AND REQUIRED SUBSTANTIAL IMPROVEMENT. WE ARE NOW WORKING ON A US REQUEST LIST FOR DEEPER-THAN-FORMULA CUTS BY JAPAN ON NON-AGRICULTURAL ITEMS. THE US RESPONDED TO ASEAN QUESTIONS CONCERNING THE TIMETABLE, LINKAGE OF TARIFF AND NON-TARIFF MEASURE CODES, AND THE PRINCIPAL SUPPLIER RULE ON OUR AGRICULTURE OFFER. AGREEMENT WAS REACHED TO PURSUE BILATERAL CONSULTATIONS AT THE PREFERRED PACE OF EACH MEMBER COUNTRY. IN MARCH SENIOR ASEAN OFFICIALS WHO MAKE TRADE POLICY WILL CONSIDER A JOINT MTN PACKAGE. MALAYSIA INDICATED SEPARATELY A WILLINGNESS TO ENTER INTO SERIOUS
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PRODUCT NEGOTIATIONS, BUT THE GOM WAS CONSTRAINED
BY THE COMMON ASEAN POSITION.
9. EXPORT CREDIT CONSENSUS APPROVED (LIMITED OFFICIAL USE)

AT A MEETING IN PARIS, 20 COUNTRIES APPROVED AD
REFERENDUM A NEW INTERNATIONAL ARRANGEMENT ON EXPORT
CREDITS. IMPROVEMENTS WERE MADE IN REPORTING REQUIREMENTS,
COMMON DEFINITIONS AND NOTIFICATION PROCEDURES. US AND
OTHERS TRIED TO RAISE THE FLOOR ON INTEREST RATES AND
TIGHTEN REPAYMENT TERMS. NO AGREEMENT COULD BE REACHED,
HOWEVER, AND WE HAD TO SETTLE ON EXTENDING THE PROVISIONS
OF THE EXISTING CONSENSUS. THE EC REFUSED TO AGREE TO
ANNUAL REPORTING ON MIXED AND TIED AID CREDITS.
NEGOTIATIONS ALMOST BROKE DOWN OVER US REFUSAL TO APPLY
CONSENSUS TERMS TO LNG TANKERS. THE US FINALLY AGREED
TO LIMITED PRIOR NOTICE WHEN TERMS OF LNG TANKERS
EXCEEDED THOSE OF THE CONSENSUS. SEVERAL PARTICIPANTS
ARE UNHAPPY WITH THE FINAL COMPROMISE BECAUSE IT FAILS
TO PROVIDE ADEQUATE CONTROL OVER EXPORT CREDIT AREAS
SUCH AS MIXED CREDITS WHICH HAVE BEEN SUBJECT TO PAST
ABUSES.

10. HOUSE PASSES OPIC AND WITTEVEEN AUTHORIZATION
(UNCLASSIFIED)
ON FEBRUARY 23, THE HOUSE OF REPRESENTATIVES PASSED THE
OPIC AUTHORIZATION 191-167. THE LEGISLATION, WHICH
CONTAINS AMENDMENTS ON, INTER ALIA, HUMAN RIGHTS AND
SMALL BUSINESS, GOES TO CONFERENCE WITH THE SENATE,
WHICH PASSED A DIFFERENT AUTHORIZATION LAST YEAR. ALSO
ON THE 23RD, THE HOUSE PASSED 267-125, THE LEGISLATION
AUTHORIZING US PARTICIPATION IN THE IMF SUPPLEMENTARY
FINANCING (WITTEVEEN) FACILITY (SFF). THE HOUSE ADOPTED
AMENDMENTS INVOLVING HUMAN RIGHTS, PALM OIL AND
RESTRICTIONS ON ARRANGEMENTS TO PAY PRIVATE CREDITORS.
THE SENATE HAS NOT YET SCHEDULED FLOOR ACTION
ON THE SFF, BUT THE SFRC AND BANKING COMMITTEE HAVE
REPORTED OUT BILLS.

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11. US HOSTING OF COLOMBO PLAN CONSULTATIVE COMMITTEE
(CPCC) (UNCLASSIFIED)
MIKE ADLER HAS BEEN GIVEN RESPONSIBILITY FOR CPCC PREPARA-
TIONS. HE PLANS TO ADD TWO TEMPORARY SENIOR STAFF
POSITIONS TO AID/ASIA TO HANDLE THE WORK. HE HAS ALSO
ORGANIZED AN INTERAGENCY TASK FORCE IN WHICH THIS OFFICE
WILL PARTICIPATE TO COORDINATE PREPARATIONS. MIKE EXPECTS

GOVERNOR GILLIGAN TO CHAIR THE DECEMBER 5-7 MINISTERIAL
MEETING AND JACK SULLIVAN OR HIMSELF TO CHAIR THE
NOVEMBER 29-DECEMBER 2 OFFICIALS' MEETING.
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